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UNCLAS SECTION 01 OF 02 ABUJA 003180

SIPDIS

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TAGS: EINV ECON PREL PGOV NI
SUBJECT: NIGERIA: UPDATES ON ALSCON AND AJAOKUTA PRIVATIZATIONS

¶1. (U) Summary. The Bureau of Public Enterprise (BPE) has confirmed that the GON was going forward with the Aluminium Smelter Company of Nigeria (ALSCON) and Ajaokuta Steel Company Limited (ASCL). U.S. manufacturer Aluminum Company of America (ALCOA) is one of three companies expressing interest in the ALSCON purchase (a 51 percent stake). The other companies are Glencore (a Swiss company) and Russian Aluminum. The BPE has scheduled a late-January selection of a core investor from the interested bidders. Only one company expressed interest in the purchase of the Ajaokuta Steel Company Limited leading to an extension of the deadline to November 21. End Summary.

¶2. (U) ALSCON, a 2.36 billion dollar capital investment, is one of the world,s most expensive smelters. Located at Ikot Abasi, Akwa Ibom State, the company occupies roughly 100 hectares with direct access to the Imo River. The company was incorporated in 1989 but only produced aluminum ingots between 1997 and 1999, and never exceeded half of its projected 193,000 ton-a-year capacity. The BPE listed a) inadequate working capital; b) the high price of natural gas; c) the need to re-dredge the Imo River; d) a hostile local community; and e) non-completion of the project as the problems which led to the May 1999 closure of the plant.

¶3. (U) Reynolds Aluminum initially served as the plant's technical advisor and held a ten percent equity stake until the company was bought out by ALCOA. (The Government of Nigeria retains a 70 percent equity interest in ALSCON and the German company Ferrostaal AG, a division of the MAN group, holds 20 percent.) After ALCOA's initial negotiations with the GON proved unsatisfactory, the U.S. company announced it would divest itself of its ten percent ownership of ALSCON and abandon its role as technical advisor.

¶4. (U) Since ALSCON shut down production in 1999, the GON has not stopped investing money in the project. According to Abiodun Wright, the BPE official supervising the ALSCON privatization, more than half a million dollars a month is spent to maintain a skeleton staff of 700 to keep the machinery in working order. Ms. Wright called the expenditures necessary to keep the facility in a "preservation mode", to make it more attractive to potential investors and so that the eventual winning bidder can commence operations immediately.

¶5. (U) ALCOA now seems poised to re-enter the negotiation for ALSCON. "This Day" newspaper quoted a GON source as saying ALCOA had decided not to divest but was looking to increase its equity in ALSCON. Recent news articles suggest ALCOA may have the inside track of winning the bid.

Ajaokuta Steel Company Limited (ASCL)

¶6. (SBU) After her update on ALSCON, Wright asked how BPE could more effectively advertise to the U.S. to find a core investor for the Ajaokuta steel complex. Earlier in the month, the BPE extended the submission date to November 21 for those interested in a 51 percent stake in the Ajaokuta Steel Company. The uncompleted plant has been regarded internationally as the quintessential "white elephant" project. The World Bank reportedly advised the GON to abandon the dream of producing steel and consider converting the complex into an industrial estate or power plant. (Comment: Ajaokuta,s technology is several generations behind. It is difficult to envision a scenario where the plant could be more profitable. Perhaps because of this, only one company has expressed interest in becoming the core investor. End Comment.)

¶7. (SBU) When asked why the GON continued committing funds into the Ajaokuta although it was going to be privatized, Wright confided that the Ministry of Power and Steel had until very recently maintained the hope of running Ajaokuta

as a State-owned enterprise.

Comment

¶8. (SBU) Perhaps the general lack of budget resources -- as much as BPE's Privatization Act -- led to the Power and Steel Ministry's losing its battle to build and run this steel city that stretches for miles, costs billions of dollars, and never produced a single bar of steel. Agagu has reportedly just resigned as Minister of Power and Steel to run for Governor of Ondo State in the Southwest. Before leaving, he made a public statement predicting the steel plant would be completed soon and that Nigeria would realize its goal of becoming a steel-producing industrial nation. This appears to be an exaggeration of Ajaokutan dimensions. Meanwhile, the Guardian newspaper (Lagos-based) of November 21 reports that Siemens Limited won a contract worth $390 million Euros to build a power generating and transmission facility at Ajaokuta, as recommended by the World Bank.
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